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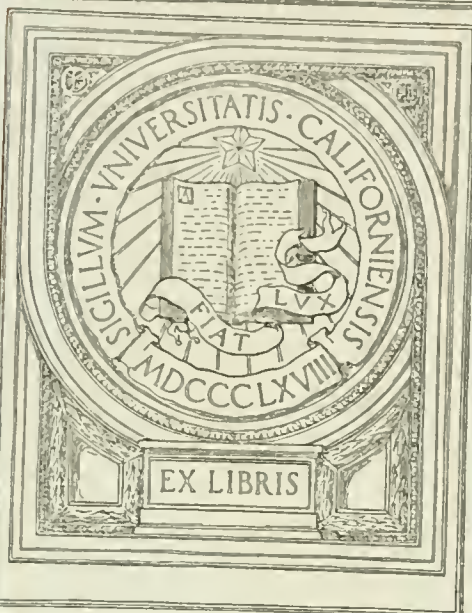
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1920.

No. 1.

ANNOUNCEMENT BY THE SECRETARY OF STATE FOR INDIA PUBLISHED
ON 2ND FEBRUARY 1920.¹

The Secretary of State in Council has considered, in consultation with the Government of India, the Majority and Minority Reports received from the Committee appointed by him, under the chairmanship of Sir Henry Babington Smith, to advise on the subject of Indian Exchange and Currency. The Majority Report, which is signed by the chairman and all the members of the Committee except Mr. D. M. Dalal, states as its objects the restoration of a stable and automatic system and the maintenance of the convertibility of the note issue.

The fundamental recommendations of the Report are as follows:—

- (a) that the present rupee unchanged in weight and fineness should remain unlimited legal tender;
- (b) that the rupee should have a fixed exchange value, and that this exchange value should be expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, that is one-tenth of the gold content of the sovereign;
- (c) that the sovereign, which is now rated by law at Rs. 15, should be made a legal tender in India at the revised ratio of Rs. 10 to one sovereign;
- (d) that the import and export of gold to and from India should be free from Government control, as soon as the change in the statutory ratio has been effected, and that the gold mint at Bombay should be open for the coinage into sovereigns of gold tendered by the public;
- (e) that the notification of the Government undertaking to give rupees for sovereigns should be withdrawn;
- (f) that the prohibition on the private import and export of silver should be removed in due course, and that the import duty on silver should be repealed unless the fiscal position demands its retention.

These recommendations develop, with the necessary modifications required by altered circumstances, the principles on which the Indian currency system was established before the war, and are accepted by the Secretary of State in Council as expressing the goal towards which Indian currency policy should now be directed.

Under the conditions existing prior to the war sterling and gold were identical standards. The existing disparity has made a choice between these standards necessary, and the Committee's recommendation is in favour of placing the rupee on a gold basis.

In recommending a rate, namely, that above mentioned, for the exchange value of the rupee, the Chairman and majority have taken account of the high range of silver prices, and of the importance of safeguarding the convertibility of the Indian note issue by providing so far as possible that the token character of the rupee shall be restored and maintained, *i.e.*, that the Indian Government may be in a position to buy silver for coinage into rupees without loss. They were also impressed by the serious economic and political risks attendant on a further expansion of Indian prices such as must be anticipated from the adoption of a low rate.

The arguments advanced in favour of a gold basis and a high rate of exchange appear to the Secretary of State in Council to be conclusive, and he has decided to take the necessary steps to give immediate effect to the recommendations on these points. Accordingly the Government of India have to-day announced that the rate which they will pay for gold tendered to them under the Gold Import Act by private importers will henceforth be fixed at one rupee for 11·30016 grains of fine gold, that is 10 rupees for the gold content of the sovereign. The consequential changes in the regulations relating to the sale of Council Drafts by the Secretary of State in Council and Reverse Councils by the Government of India will be notified separately.

The question of the internal ratio presents special difficulties. The Committee recommend the maintenance of gold on a legal tender footing, especially in view of possible difficulties in obtaining adequate supplies of silver. A fixed ratio must therefore be established between the rupee and gold as used in the internal circulation, either one sovereign for Rs. 15 as at present or one sovereign for Rs. 10 in correspondence with the new exchange ratio. The former alternative would give the sovereign the status of an overvalued token coin, necessitate permanent

¹ This announcement was also issued in India on 2nd February 1920 as Finance Department Notification No. 369 F.

control over the import of sovereigns and make an open gold mint impossible. The Secretary of State in Council agrees with the Committee that such conditions ought not to be contemplated as a permanent arrangement. On the other hand, the lower ratio cannot be effectively introduced while a great disparity continues to exist between the commercial price of gold in India and the intended Indian Mint par of one sovereign for Rs. 10.

Present conditions are the product of the war, and in some sense artificial. They cannot be immediately remedied without the risk of shock to the economic and monetary system in India and of reactions elsewhere to which India cannot in her own interests be indifferent: a gradual process of rectification and adjustment to new conditions is required. For some time past action has been taken in India to reduce the premium on gold by regular Government sales of bullion to the public, and this measure will be further developed. It may be expected that in this way a natural adjustment may be effected and the path to legislation cleared.

The Secretary of State has decided therefore, (1) that the import of gold shall continue, for the present, to be controlled by licence under the Gold Import Act with a fixed acquisition rate as mentioned above, (2) that meanwhile periodical sales of gold bullion to the public shall continue, and (3) that as a provisional measure during the transitional period the sovereign shall remain a legal tender at the present ratio of Rs. 15.

In arriving at these decisions the Secretary of State in Council has not failed to give careful consideration to the Minority Report signed by Mr. D. M. Dalal. Mr. Dalal's main object is the effective restoration and maintenance of the ratio of Rs. 15 to one sovereign as a measure both of the exchange and the circulating value of the rupee. In order to secure this he relies upon freedom for the melting and export of rupees and corresponding freedom for the import of gold. To meet the possible resulting shortage of silver coin he recommends that as long as the New York price of silver remains above 92 cents Government should coin 2-rupee silver coins of reduced fineness, the coinage of rupees of present weight and fineness being meanwhile suspended and only resumed when the price of silver falls to the figure named. He also recommends that sterling drafts on the Secretary of State should be sold only at 1s. 3 $\frac{2}{3}$ d.

The Secretary of State in Council is satisfied that this programme could not be adopted without untoward consequences. The heavy exports of silver coin to be anticipated under the scheme must threaten not only the whole silver circulation but also the Government's reserve of silver coin, and entail the gravest risk of inconvertibility of the Government's note issue. The demand for the gold required *pari passu* to make this deficiency good must greatly aggravate any strain there may be on the gold stocks of the world when freedom of import is restored. Nor is it safe to assume that these difficulties could be met by issuing new silver coins of inferior fineness; the evidence against the acceptability of inferior substitutes for the present rupee has impressed the majority, and their recommendation on this head is accepted by the Secretary of State as decisive. Mr. Dalal's recommendation in regard to the rate for sterling drafts, if adopted, must produce an immediate crash in exchange, bringing unmerited disaster to those who have reasonably relied on some continuity of policy. The only cover which his scheme affords is the export of the country's circulating currency. In any case, even if a return to the pre-war level of exchange could be accomplished without shock to trade or risk to the currency system, it would lay India open to a further serious inflation of prices, while the Majority's recommendations would tend towards a reduction of the general price level in India.

Both during and since the war Indian currency and exchange have presented problems previously unanticipated and more perplexing than any encountered since the decision to close the Mints in 1893. But the Secretary of State in Council is satisfied that the decisions reached promise an eventual solution, and he desires to express his acknowledgments to the Committee and their Chairman for the ability and thoroughness with which they have explored the issues and framed their recommendations.

No. 2.

ANNOUNCEMENT DATED 2ND FEBRUARY 1920 ISSUED BY THE GOVERNMENT OF INDIA.¹

The acquisition rate for gold imported under licence into India, which has hitherto been subject to variation notified from time to time, has now, in accordance with the Secretary of State for India's separate announcement published to-day relating to the

¹ The first two paragraphs of the above Announcement were also issued in London on 2nd Feb. 1920.

recommendations of the Indian Currency Committee, been fixed, and the following fixed rates will apply to transactions on and after Monday, 2nd February, namely, Rs. 10 for each sovereign tendered for import, or one rupee for 11·30016 grains of fine gold.

2. Council drafts will continue to be offered at the Secretary of State's discretion for weekly sale at the Bank of England by competitive tender. The rate for deferred telegraphic transfers and bills will, until further notice, rank for allotment with tenders at $\frac{1}{16}$ th of a penny higher for immediate telegraphic transfers. No announcement will be made of the minimum rate at which tenders will be accepted, and the Secretary of State for India in Council reserves the right of rejecting the whole or part of any tender. In accordance with the Committee's recommendations, the Government of India will, when occasion requires, offer for sale stated weekly amounts of sterling reverse drafts on the Secretary of State for India (including immediate telegraphic transfers).

The rates for immediate telegraphic transfers on London will be announced on each occasion by the Controller of Currency, and will be based on the sterling equivalent of the price of 11·30016 grains fine gold, as measured by the prevailing sterling-dollar exchange, less a deduction representing the charges of remitting gold. The rate for deferred drafts on London will, until further notice, be $\frac{1}{16}$ th of a penny higher than the immediate rate as at present.

3. The Finance Department Notification No. 4071¹, dated the 11th September 1897, providing for the issue of rupees at the reserve treasuries in Calcutta, Madras, and Bombay, in exchange for sovereigns and half-sovereigns at the rate of Rs. 15 and Rs. 7½ respectively, is cancelled. Notification No. 6908A¹, dated the 11th December 1906, regarding the receipt of sovereigns and half-sovereigns at the mints, is also cancelled.

4. The existing prohibition on the import of silver is cancelled, and the import duty of four annas an ounce is abolished. The prohibition on the export of silver remains.

5. The Notifications under the Defence of India Act¹ prohibiting the use of gold and silver coin otherwise than as currency, or dealing therein at a premium, are cancelled.

¹ See Appendix.

APPENDIX.

(a) NOTIFICATION OF THE GOVERNMENT OF INDIA, No. 4071 (FINANCE AND COMMERCE), dated 11th September 1897.

In continuation of the notifications No. 2362, No. 2663, and No. 2664, dated 26th June 1893, the Governor-General in Council hereby notifies for public information that from and after the date of this notification, sovereigns and half-sovereigns of current weight coined at any authorised Royal Mint in England or Australia will be received at the Reserve Treasuries at Calcutta, Madras, and Bombay, and rupees will be issued in exchange therefor, the sovereign and half-sovereign being taken as the equivalent of 15 rupees and of seven rupees eight annas respectively.

(b) NOTIFICATION OF THE GOVERNMENT OF INDIA, No. 6908A, dated 11th December 1906.

Receipt by the Mints of Calcutta and Bombay of Sovereigns and Half-Sovereigns only.

In supersession of the notifications by the Government of India in the Financial Department, No. 2662, dated the 26th June 1893, and No. 3218A, dated the 14th July 1899, which are hereby cancelled, the Governor-General in Council is pleased to direct that, with effect from 1st April 1907, gold bullion and gold coins, other than sovereigns and half-sovereigns, will not be received by the Mint Masters of the Calcutta and the Bombay Mints.

(c) THE DEFENCE OF INDIA (CONSOLIDATION) RULES, 1915.

21A. No person shall melt, break up, or use otherwise than as currency, any current gold or silver coin.

21C. No person shall sell or purchase or offer to sell or purchase any coin for an amount exceeding the face value of such coin, or shall accept or offer to accept any such coin in payment of a debt or otherwise for an amount exceeding its face value.

Explanation.—For the purposes of this rule, the face value of a sovereign shall be deemed to be Rs. 15, and the face value of other gold coins described in section 11. of the Indian Coinage Act, 1906, shall be the corresponding proportion of Rs. 15.

